

KINDERGARTEN—UNIVERSITY PUBLIC
EDUCATION FACILITIES BOND ACT OF 2002.

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

47

KINDERGARTEN—UNIVERSITY PUBLIC
EDUCATION FACILITIES BOND ACT OF 2002.

- This act provides for a bond issue of thirteen billion fifty million dollars (\$13,050,000,000) to fund necessary education facilities to relieve overcrowding and to repair older schools.
- Funds will be targeted to areas of greatest need and must be spent according to strict accountability measures.
- Funds will also be used to upgrade and build new classrooms in the California Community Colleges, the California State University, and the University of California, to provide adequate higher education facilities to accommodate growing student enrollment.
- Appropriates money from state General Fund to pay off bonds.

SUMMARY OF LEGISLATIVE ANALYST’S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT
FISCAL IMPACT:

- State cost of about \$26.2 billion over 30 years to pay off both the principal (\$13.05 billion) and interest (\$13.15 billion) costs on the bonds. Payments of about \$873 million per year.

FINAL VOTES CAST BY THE LEGISLATURE ON AB 16 (PROPOSITION 47)

Assembly:	Ayes 71	Noes 8
Senate:	Ayes 27	Noes 11

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Public education in California consists of two distinct systems. One system includes local school districts that provide elementary and secondary (kindergarten through 12th grade, or “K–12”) education to about 6.1 million pupils. The other system (commonly referred to as “higher education”) includes local community colleges, the California State University (CSU), and the University of California (UC). The three segments of higher education provide education programs beyond the 12th grade to about 2.3 million students.

K–12 Schools

School Facilities Funding. The K–12 schools receive funding for construction and renovation of facilities from two main sources—the state and local general obligation bonds.

- **State Funding.** The state, through the School Facility Program (SFP), provides money for school districts to buy land and to construct, renovate, and modernize K–12 school buildings. Districts receive funding for construction and renovation based on the number of pupils who meet the eligibility criteria of the program. The cost of school construction projects is shared between the state and local school districts. The state pays 50 percent of the cost of new construction projects and 60 percent of the cost for approved modernization projects. (Local matches are not necessary in so-called “hardship” cases.) The state has funded the SFP by issuing general obligation bonds. Over the past decade, voters have approved a total of \$11.5 billion in state bonds for K–12 school construction. About \$550 million of these funds remain available for expenditure.
- **Local General Obligation Bonds.** School districts are authorized to sell general obligation bonds to finance school construction projects with the approval of 55 percent of the voters in the district. These bonds are paid off by taxes on real property located within the district. Over the last ten years, school districts have received voter approval to issue more than \$23 billion of general obligation bonds. Although school facilities have been funded primarily from state and local general obligation bonds, school districts also receive significant funds from:
 - **Developer Fees.** State law authorizes local governments to impose developer fees on new construction. These fees are levied on new residential, commercial, and industrial developments. Statewide, school districts report having received an

average of over \$300 million a year in developer fees over the last ten years.

- **Special Local Bonds (Known as “Mello-Roos” Bonds).** School districts may form special districts in order to sell bonds for school construction projects. (These special districts generally do not encompass the entire school district.) The bonds, which require two-thirds voter approval, are paid off by charges assessed to property owners in the special district. Statewide, school districts have received on average about \$150 million a year in special local bond proceeds over the past decade.

K–12 School Building Needs. Under the SFP, K–12 school districts must demonstrate the need for new or modernized facilities. Through May 2002, the districts have identified a need to construct new schools to house 1.2 million pupils and modernize schools for an additional 1.2 million pupils. We estimate the state cost to address all of these needs to be roughly \$20 billion.

Higher Education

California’s system of public higher education includes 140 campuses in the three segments listed below, serving about 2.3 million students:

- The California Community Colleges provide instruction to 1.7 million students at 108 campuses operated by 72 locally governed districts throughout the state. The community colleges grant associate degrees and also offer a variety of vocational skill courses.
- The CSU system has 23 campuses, with an enrollment of about 395,000 students. The system grants bachelor and master degrees, and a small number of joint doctoral degrees with UC.
- The UC has eight general campuses and one health sciences campus with a total enrollment of about 184,000 students. This system offers bachelor, master, and doctoral degrees, and is the primary state-supported agency for research.

Over the past decade, the voters have approved nearly \$4.4 billion in general obligation bonds for capital improvements at public higher education campuses. The state also has provided almost \$1.5 billion in lease revenue bonds for this same purpose.

In addition to these state bonds, the higher education segments have other sources of funding for capital projects.

- **Local General Obligation Bonds.** Community college districts are authorized to sell general

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

obligation bonds to finance school construction projects with the approval of 55 percent of the voters in the district. These bonds are paid off by taxes on real property located within the district. Over the last decade, community college districts have received local voter approval to issue about \$5 billion of bonds for construction and renovation of facilities.

- **Gifts and Grants.** The CSU and UC in recent years together have received on average over \$100 million annually in gifts and grants for construction of facilities.
- **UC Research Revenue.** The UC finances the construction of new research facilities by selling bonds and pledging future research revenue for their repayment. Currently, UC uses about \$125 million a year of research revenue to pay off these bonds.

Higher Education Building Plans. Each year the institutions of higher education prepare capital outlay plans in which they identify project priorities over the next few years. Higher education capital outlay projects in the most recent plans total \$4.4 billion for the period 2003–04 through 2006–07.

PROPOSAL

This measure allows the state to issue \$13.05 billion of general obligation bonds for construction and renovation of K–12 school facilities (\$11.4 billion) and higher education facilities (\$1.65 billion). General obligation bonds are backed by the state, meaning that the state is obligated to pay the principal and interest costs on these bonds. General Fund revenues would be used to pay these costs. These revenues come primarily from state income and sales taxes. Figure 1 shows how these bond funds would be allocated to K–12 and higher education.

K–12 School Facilities

Figure 1 describes generally how the \$11.4 billion for K–12 school projects would be allocated. However, the measure would permit changes in this allocation with the approval of the Legislature and Governor.

New Construction. A total of \$6.35 billion would be available to buy land and construct *new* school buildings. Of this amount, \$2.9 billion would be set aside for “backlog” projects—that is, projects for which districts had submitted applications on or before February 1, 2002, but that have not yet been funded. The remaining funds—\$3.45 billion—would be available for new construction projects submitted after February 1, 2002. Districts would be required to pay for

FIGURE 1

PROPOSITION 47
USES OF BOND FUNDS

(In Millions)	Amount
K–12	
New Construction:	
New projects	\$3,450 ^a
Backlog ^b	2,900
Modernization:	
New projects	1,400
Backlog ^b	1,900
Critically overcrowded schools	1,700
Joint use	50
Subtotal, K–12	(\$11,400 ^c)
Higher Education	
Community Colleges	\$746
California State University	496
University of California	408
Subtotal, Higher Education	(\$1,650)
Total	\$13,050

^a Up to \$100 million available for charter schools. Up to \$25 million available for reimbursements to homebuyers for fees paid to school districts to fund new facilities, but only in the event Proposition 46 fails.

^b Projects for which districts had submitted applications on or before February 1, 2002.

^c Up to \$20 million available for energy conservation projects.

50 percent of costs with local resources. The measure also provides that up to \$100 million of the \$3.45 billion in new construction funds is available for charter school facilities. (Charter schools are public schools that operate independently of many of the requirements of regular public schools.)

Modernization. The proposition makes \$3.3 billion available for the reconstruction or modernization of *existing* school facilities. Of this amount, \$1.9 billion would be available for backlog projects and \$1.4 billion for new proposals. Districts would be required to pay 40 percent of project costs from local resources.

Critically Overcrowded Schools. This proposition directs a total of \$1.7 billion to districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site.

Joint-Use Projects. The measure makes a total of \$50 million available to fund joint-use projects. (An example of a joint-use project is a facility constructed for use by both a K–12 school district and a local library district.)

Higher Education Facilities

The measure includes \$1.65 billion to construct new buildings and related infrastructure, alter existing buildings, and purchase equipment for use in these buildings for California’s public higher education

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

systems. The Governor and the Legislature would select the specific projects to be funded by the bond monies.

Related Bond Funding. The legislation which placed this proposition on the ballot provides \$651.3 million in lease revenue bonds to fund specific projects. Lease revenue bonds are similar to state general obligation bonds except they do not require voter approval and are not backed by the full faith and credit of the state. This would fund \$279 million for UC (7 projects), \$191.3 million for CSU (4 projects), \$170.5 million for the community colleges (11 projects), and \$10.5 million for the California State Library (1 project).

Future Education Bond Act

The legislation which placed this proposition on the ballot authorizes a \$12.3 billion bond measure to be placed on the 2004 primary election ballot. (If the voters do not approve this measure, the same bond

issue would be placed on the November 2004 ballot.) The bond measure would provide:

- \$10 billion for K–12 school facilities (with roughly half for new construction and a fourth each for modernization and critically overcrowded schools).
- \$2.3 billion for higher education (with \$920 million for community colleges and \$690 million each for UC and CSU).

FISCAL EFFECT

The cost of these bonds would depend on their interest rates and the time period over which they are repaid. If the \$13.05 billion in bonds authorized by this proposition are sold at an interest rate of 5.25 percent (the current rate for this type of bond) and repaid over 30 years, the cost over the period would be about \$26.2 billion to pay off both the principal (\$13.05 billion) and interest (\$13.15 billion). The average payment for principal and interest would be about \$873 million per year.

ARGUMENT IN FAVOR OF PROPOSITION 47

California’s public schools used to be among the best in the nation. But years of neglect and inadequate funding have taken their toll.

Students can’t learn and teachers can’t teach in overcrowded and rundown classrooms.

Proposition 47 will help fix our schools...and help our students succeed.

PARENTS SUPPORT Proposition 47 because it **BUILDS NEW SCHOOLS**. Prop. 47:

- **BUILDS THE NEW SCHOOLS** we need for the *hundreds of thousands of new students* entering California classrooms in the coming years.
- **BUILDS NEW CLASSROOMS** to *keep class sizes small*. Our kids can’t learn with 45 kids in their class!

LOCAL TEACHERS SUPPORT Proposition 47 because it **REPAIRS AND RENOVATES OLD AND OUTDATED SCHOOLS**. Prop. 47:

- **FIXES LEAKY ROOFS, REPAIRS BATHROOMS** that don’t work and **PUTS HEATING AND AIR CONDITIONING** in our classrooms.
- **GUARANTEES** that our kids go to school in **SAFE BUILDINGS THAT MEET EARTHQUAKE AND FIRE STANDARDS**.

PARENTS AND TEACHERS SUPPORT Proposition 47 because it **MAKES SURE THE MONEY IS SPENT WHERE IT IS NEEDED MOST**. Prop. 47:

- **GUARANTEES** that new schools will be built where classes are already *severely overcrowded*.
- **MAKES SURE** that new and growing communities get their *fair share* of the funds to build the schools they need.

THE CALIFORNIA CHAMBER OF COMMERCE and the LEAGUE OF WOMEN VOTERS OF CALIFORNIA SUPPORT Proposition 47 because it **INVESTS IN THE FUTURE OF OUR ECONOMY AND OUR WORKFORCE**. Prop. 47:

- Provides money to **WIRE OUR CLASSROOMS** for the technology and computers our kids need to compete in college or career.
- Gives our students **ACCESS TO** the right **TECHNOLOGY** today to be prepared for the workforce and society of *tomorrow*.

The CALIFORNIA TAXPAYERS’ ASSOCIATION SUPPORTS Proposition 47 because it **PROTECTS TAXPAYERS AND SENIORS** by holding schools accountable for how they spend our hard-earned dollars. Prop. 47:

- **PROVIDES** for **AUDITS, COST CONTROLS** and other **ACCOUNTABILITY** requirements to guard against waste and mismanagement.
- **ASSURES** that taxpayer funds **CANNOT BE SPENT ON BUREAUCRACY** or wasteful overhead—funds can *only* be spent to build or renovate schools.

The CALIFORNIA BUSINESS ROUNDTABLE SUPPORTS Proposition 47 because it *also provides funds for California’s colleges and universities*. Prop. 47:

- **BUILDS NEW COLLEGE CLASSROOMS** to accommodate the tens of thousands of new students who will enter our campuses in the next few years.
- Upgrades aging college laboratories, libraries and research facilities so that they can continue to pave the way for **NEW TECHNOLOGIES AND INDUSTRIES**.

Proposition 47 will provide \$13 billion for school construction and renovation for our public schools, colleges and universities—**WITHOUT RAISING YOUR TAXES**.

CALIFORNIA SCHOOLS ARE TURNING THE CORNER. Test scores are up and more students are meeting high standards. **BUT THERE IS STILL MUCH MORE WE CAN DO**.

Join Republicans, Democrats and Independents—taxpayers and business leaders—the California Teachers Association and the California State PTA—seniors and women’s groups and millions of Californians who all support our schools.

Invest in California’s children and California’s future.
VOTE YES on PROPOSITION 47.

ALLAN ZAREMBERG, *President*
California Chamber of Commerce

JAN HARP DOMENE, *President*
California State PTA (PTA)

LARRY MCCARTHY, *President*
California Taxpayers’ Association (CAL TAX)

REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 47

Recently, a group of 30 Taxpayer Organizations from various parts of the State held a convention under the name California Taxpayers Coalition and unanimously voted to oppose Proposition 47 for one main reason—*California currently has too much debt on the books*.

As California voting taxpayers, we must come to grips with the massive amount of debt we’re all on the hook for. Since 1985, California and its political subdivisions have sold over \$500,000,000,000 in various debt instruments. *That’s \$500 billion in debt!* (For a complete list, go to www.peoplesadvocate.org)

It’s time for California voters to put a stop to this bond-selling binge. Vote “No” on Proposition 47, and send Governor Davis and his cronies in the Legislature a real message.

Neither the Governor, the Treasurer, nor the Controller can tell us how much debt we currently have or how much of our tax money goes toward the interest school districts, cities, and counties pay each year. They simply don’t keep those kinds of

records. This is far worse than the Enron or WorldCom scandals.

Both Moody’s and Standard and Poor’s have downgraded California’s credit rating as a result of the erosion of the State’s fiscal health. *California’s credit rating matters*. Furthermore, it’s outrageous that our Governor, Treasurer, or Controller can’t tell us how much outstanding debt we have in California.

As taxpayers, we should not approve any new debt until our Governor tells us exactly how much debt we currently have on the books.

Vote “No” on Proposition 47.

EDWARD J. (TED) COSTA, *Chairman*
California Taxpayers Coalition

RALPH MORRELL, *President*
Northern California Committee for Limited Government

KEN STEADMAN, *President*
Waste Watchers, Inc.

ARGUMENT AGAINST PROPOSITION 47

California currently has tens of billions of dollars in outstanding bonds that we are paying interest on. Because we've passed so many bonds in recent years, California has been assigned the third lowest credit rating in the country. As such, we should be extremely careful whenever we consider taking on more debt.

There is no doubt that the school facilities shortage in our state is a serious problem that needs to be addressed. But Proposition 47 is the wrong solution. This bond is poorly written and patently unfair.

Prop 47 does not encourage immediate school construction. In fact, under this new scheme, the schools with the neediest kids aren't even obligated to *begin* building a single school for 6½ years. School districts can reserve bond money by simply stating an "intent" to build a school in a general location. They don't need to have plans drawn up, complete an environmental impact study, or even identify an approvable site. Schools built with the bond funds made available in 2004 would not have to break ground until 2011! In short, Prop 47 will allow these

districts to tie up money while other ready-to-build sites go unfunded and projects are delayed.

Additionally, Prop 47 favors the Los Angeles Unified School District (LAUSD) over every other district in the state. According to numbers from the Office of Public School Construction, LAUSD is eligible for over 24% of the new construction funds, even though it accounts for only 12% of the state's student population.

Tax dollars from across the state shouldn't be used to service a bond that so heavily favors a single school district. Say "No" to LAUSD's greed. Vote "No" on Prop 47.

WM. J. "PETE" KNIGHT, *Senator*
17th District, California State Senate
JON COUPAL, *President*
Howard Jarvis Taxpayers Association
LEWIS K. UHLER, *President*
National Tax Limitation Committee

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REBUTTAL TO ARGUMENT AGAINST PROPOSITION 47

The opponents are right about one thing: CALIFORNIA SCHOOLS *are* CRITICALLY OVERCROWDED. We need more than 13,000 NEW CLASSROOMS to ACCOMMODATE NEW STUDENTS and KEEP CLASS SIZE SMALL.

Here are some facts the opponents *didn't* get right:

Fact: Every CRITICALLY OVERCROWDED district is eligible *only* for its FAIR SHARE of Prop. 47 funds to build new classrooms. Every Central Valley school in line *will* be funded and no district, in Los Angeles or anywhere else, will get *more* than its fair share.

Fact: CLASSROOM CONSTRUCTION, REPAIR and SAFETY IMPROVEMENTS can BEGIN IMMEDIATELY if Prop. 47 passes. More than 2000 UNFUNDED PROJECTS are WAITING and READY TO BREAK GROUND—new classroom construction, moving kids out of portable trailers, earthquake safety improvements, wiring old classrooms to the Internet, upgrading electrical and fire alarm systems, repairing leaky roofs and installing heating and air conditioning.

Fact: California does *not* have a poor credit rating. On the contrary, the State Treasurer and respected bond rating services report CALIFORNIA'S BOND CREDIT RATING is HEALTHY and STRONG.

Fact: The California Taxpayers' Association supports Prop. 47 because school construction projects must comply with STRICT ACCOUNTABILITY requirements, including mandatory AUDITS, to SAFEGUARD AGAINST WASTE and MISMANAGEMENT.

Fact: Prop. 47 is part of a state/local partnership. WITHOUT PROP. 47's MATCHING FUNDS, MOST LOCAL SCHOOL BOND PROJECTS CANNOT BE COMPLETED.

Our children deserve a safe classroom and the individual attention they need to succeed.

Prop. 47 means...MORE CLASSROOMS and BETTER SCHOOLS...WITHOUT RAISING TAXES! VOTE YES on 47!

WAYNE JOHNSON, *President*
California Teachers Association
BILL HAUCK, *Co-Chair*
Taxpayers for Accountability and Better Schools
BARBARA B. INATSUGU, *President*
League of Women Voters of California